

## Value Drivers, Value Links and Key Performance Indicators of Communication: Basic Theory

**Editor:** Jörg Pfannenberg

**Expert:** Dr. Jan Sass

**As at:** 28 January, 2008

### 1. The Function of Communication in Corporate Value Creation

The impact of intangible assets – examples being corporate culture, innovativeness, brands, licenses and customer relations – on value creation has been a topic of debate in recent years. The issue of value creation through communication asks how communication supports corporate strategy and financial targets and thus adds to a company's value.

Communication generates no earnings per se, but – in cooperation with other functions such as human resources, corporate development, marketing, finance, etc. – it creates the necessary basis for the generation of revenues with the company's products and services and the marketing of those products and services. As such, communication is a key driver of corporate success.

The "Value Creation through Communication" task force of the German Public Relations Society (DPRG) presented four white papers in March 2007 on the value drivers, value links, and key performance indicators of communication in the areas of financial/investor communication, external communication, internal communication and marketing communication. The papers draw upon the Strategy Map and Balanced Scorecard tools (Kaplan/Norton).

### 2. The Kaplan/Norton Strategy Map Tool

The corporate Strategy Map developed by Kaplan/Norton is a kind of master plan intended to facilitate a comprehensive and consistent de-

Berufsverband  
Öffentlichkeitsarbeit

ANSCHRIFT  
Unter den Eichen 128  
D-12203 Berlin

TELEFON  
(030) 80 40 97 33

E-MAIL  
info@dprg.de

INTERNET  
<http://www.dprg.de>

BANKVERBINDUNG  
Dresdner Bank  
BLZ 370 800 40  
Nr. 258 206 500

Postbank Köln  
BLZ 370 100 50  
Nr. 181 360 503

UST-ID-NR.  
DE 812425987

SWIFT-BIC  
DRES DE FF 383

IBAN  
DE85 3708 0040 0258  
206500

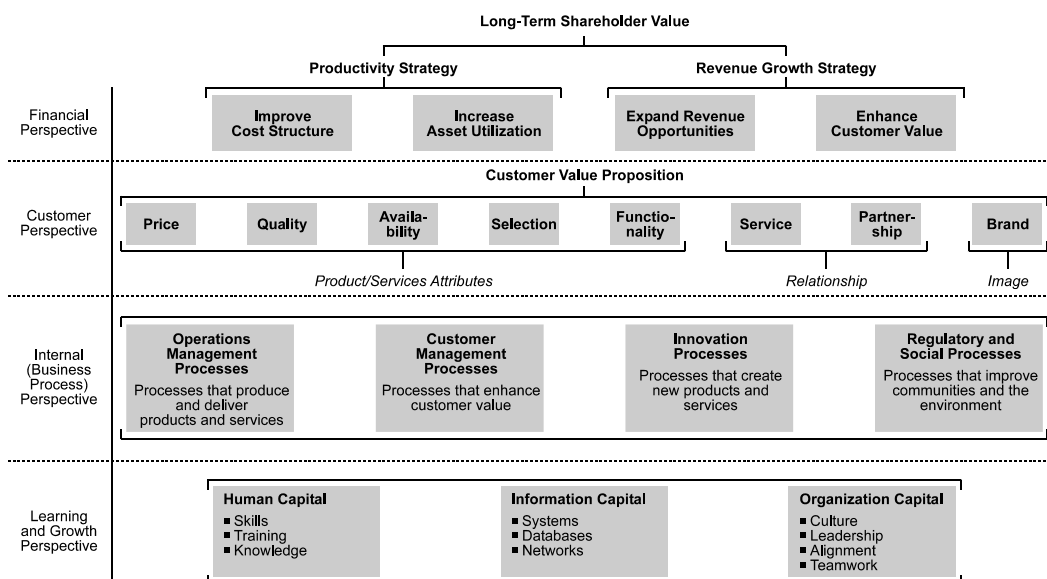
scription of corporate strategy. This is done by presenting strategic objectives in explicit cause-effect relationships. The generic Strategy Map shows the company's value-creation process by linking the formulation and the implementation of corporate strategy.

In the Kaplan/Norton system, each company pursues four supreme goals in keeping with the four Strategy Map perspectives: satisfied shareholders (financial perspective), delighted customers (customer perspective), efficient and effective processes (internal process perspective), and motivated and prepared workforce (learning and growth perspective).

The Strategy Map concept enables a holistic view of the company and has gained recognition internationally as a framework and reference point for developing key performance indicators (KPIs) for corporate and marketing communication. The Balanced Scorecard (BSC) method is used to translate the Strategy Map objectives in the four perspectives into specific targets and measurable variables.

The Strategy Map reproduces corporate goals in cause-effect relationships for corporate success, and provides a tool for evaluating communication on the basis of targets and measurable variables.

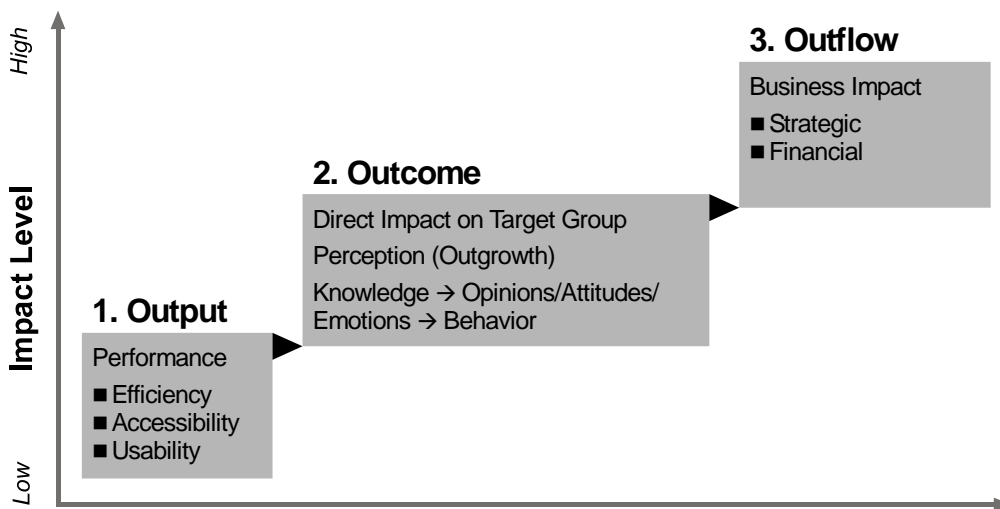
### Corporate Strategy Map



(Kaplan/Norton 2004)

### 3. The Impact Levels of Communication

The impact levels of communication – and hence the dimensions of communication controlling – are, in ascending order: Output, Outcome and Outflow. Each step must be achieved in sequence before proceeding to the next.



(DPRG/Pfannenbergs 2000/2004)

- **Output (knowledge and perception).** Was the communication measure efficiently and successfully carried out? Are the communication messages accessible to the target groups (e.g. in terms of range, topicality and amount of information)? Does the way in which the messages are designed and presented enhance the usability of the medium for the recipient (usability)?
- **Outcome (behaviors and attitudes).** Do the target groups utilize the media and do they take the messages on board (Outgrowth)? How does the take-up of the messages affect the knowledge, opinions/attitudes, emotions and behavior of the target groups?
- **Outflow (business impact).** What does communication contribute in terms of supporting or achieving the company's strategic targets (e.g. performance leadership/excellence, market position, innovativeness) and financial targets (earnings growth, cost leadership, cash flow)? The outflow targets and their evaluation criteria derive indirectly – via corporate goals – from capital market criteria used for evaluation of a company (shareholder value).

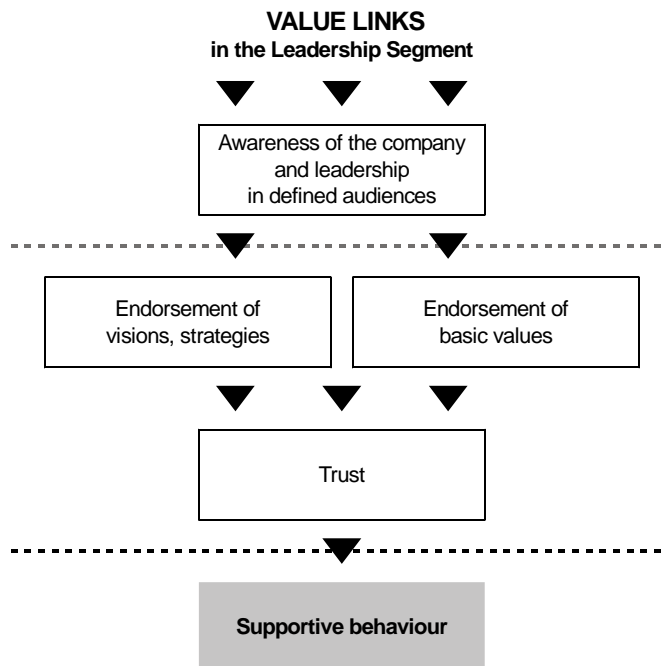
#### 4. Value Drivers and Value Links of Communication

Similarly to the representation of cause-effect relationships in the company's Strategy Map, value links show the correlations between value drivers on the impact levels of communication. The value links concept was first utilized for communication in 1995 in a Swedish PR Association project, which actually made little international impact at the time.

The value links concept traces and develops value drivers and the cause-effect relationships between them from the output level to the outcome level and through to the outflow level.

The purpose of this procedure is to identify the indirectly or directly measurable effects of communication via value driver trees, to aggregate them at the highest possible level, and to develop KPIs for measuring and controlling communication. The first step is to identify the objectives of communication at the three impact levels of output, outcome and outflow. The second step is to build up, using the value links, the cause-and-effect relationship on the way from intangible to substantial/financial effects of communication.

#### Historical Example of Value Links of Communication



*(The Swedish Public Relations Association 1996)*

## 5. Key Performance Indicators (KPIs)

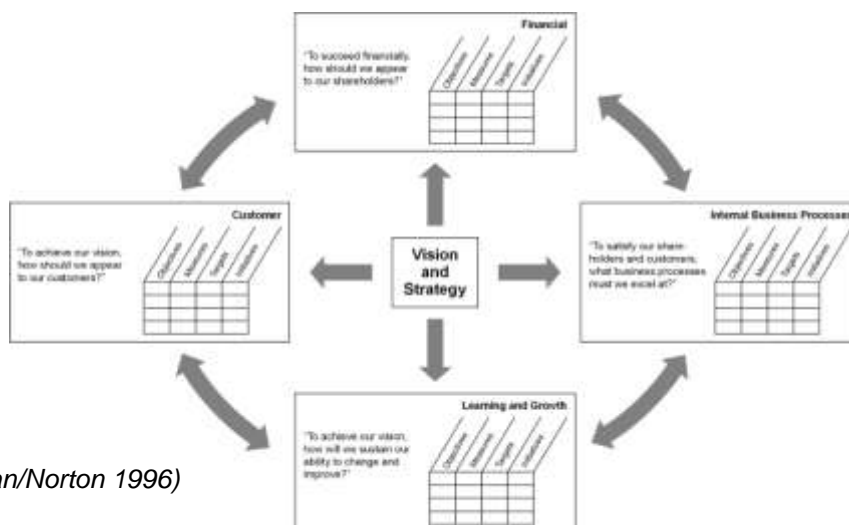
Portrayal of the value created by communication in the company's stakeholder relations forms the basis for developing KPIs (Key Performance Indicators) for measuring and controlling communication.

KPIs are parameters that may serve to identify changes in the material being measured. KPIs of communication are statistics/metrics which measure the success of communication – on the output, outcome and outflow levels – and can thus be used as indicators of the effects of communication. KPIs of communication should be:

- basically – directly or indirectly – controllable through communication
- accepted and known in the industry, i.e. not based on artificial new terms and/or proprietary concepts or dependent upon such methods of measurement
- linkable to corporate controlling, i.e. calculable
- easily determined and controlled using existing standard corporate communications methods.

In keeping with the Balanced Scorecard concept, statistics providing a comprehensive reflection of the measured item are not required. All that is required are indicators that are connected to the value driver.

### Structure of the Balanced Scorecard (BSC)



(Kaplan/Norton 1996)

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### Task Force "Value Creation through Communication"

#### German Public Relations Society (DPRG e. V.)

Contact: Jörg Pfannenberger (joerg.pfannenberger@jp-kom.de), Dr. Jan Sass (sass@lautenbachsass.de)

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